Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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In the Matter of	)	
	)	
Price Cap Performance Review for Local Exchange Carriers; Treatment of Video Dialtone Services Under Price Cap Regulation	))))	CC Docket No. 94-1

GTE's COMMENTS

GTE Service Corporation and its affiliated
domestic telephone operating companies

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SUMMARY

1. The Commission should allow carriers subject to the VDT cost allocation requirement to submit reasonable and verifiable cost allocation methods in the annual price cap tariff submissions.

2. The *de minimis* threshold should be tied to a specified percentage -- GTE suggests ten percent -- of a company's investment that is wholly dedicated to VDT.

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GTE's COMMENTS

GTE Service Corporation and its affiliated domestic telephone operating companies (collectively "GTE") hereby submit these comments in response to the Second Report and Order and Third Further Notice of Proposed Rulemaking, FCC 95-394 (released September 21, 1995) ("*Second Report and Order*" or "*Third Further Notice*" respectively) in the above-referenced proceeding.

BACKGROUND

In the *Second Report and Order*, the Commission adopted rules regarding the price cap treatment of video dialtone ("VDT") services provided by Local Exchange Carriers ("LECs" or "exchange carriers"). Specifically, the Commission (1) established a separate price cap basket for video dialtone services; (2) assigned a zero "productivity" or X-Factor to the VDT basket; (3) set the initial price cap indices for the VDT basket to reflect the rates in effect when the service is brought under price cap regulation; (4) imposed a lower pricing band; and (5) indicated the FCC will require that LECs segregate video dialtone costs and revenues from those for telephony service for purposes of sharing and the low-end adjustment once LEC provision of VDT exceeds a *de minimis* threshold.

The *Third Further Notice* seeks comment on the specific level for the *de minimis* threshold as well as the appropriate Part 69 cost allocation methodology that should be used once the threshold has been passed in the case of LECs that select a productivity factor with sharing and low end adjustment obligations for telephony. The Commission suggests the use of the new services test applied in the tariff review process for setting video dialtone rates or the application of a fixed cost allocation factor. Parties are asked to address the implications of allocating costs to the video dialtone basket on a basis different than that used to set video dialtone rates.

DISCUSSION

I. THE COMMISSION SHOULD ALLOW EXCHANGE CARRIERS SUBJECT TO THE VDT ALLOCATION REQUIREMENT TO EMPLOY REASONABLE AND VERIFIABLE ALLOCATION METHODS IN THE ANNUAL PRICE CAP TARIFF SUBMISSIONS.

A. The Commission should adopt neither of the two cost allocation options proposed in the *Third Further Notice*.

GTE urges the Commission not to establish arbitrary methods of allocating VDT costs, such as relying on tariff filing data or fixed allocation factors. These two cost allocation options raised in the *Third Further Notice* represent exactly what the Commission should not do for the following reasons:

First: It is senseless to base cost allocations for the purposes of determining a carrier's interstate rate of return on tariff filing data. The determination of revenues and costs under a rate of return showing will not, and should not, equate to the computation of prices in markets for highly competitive services, such as VDT. Rate-of-return calculations are based on actual historical results whereas tariff data is comprised primarily of projections. This means there is a significant danger that any

VDT impact on the overall interstate rate of return could be artificially skewed if actual results do not track tariff projections.

Second: It would be totally unrealistic to base future return calculations on tariff filing structures that could be years old. Costs, service demand, and rate structure relationships will change dramatically over time, particularly for those services that are subject to fierce competition. VDT prices will be dictated primarily by market forces, not by just costs. The Commission has never tied an earnings determination to pricing calculations for any other interstate services; it should not do so here.

Third: The Commission should refrain from replicating past mistakes by establishing an arbitrary fixed allocator for VDT. There is no logical manner in which the Commission could arrive at a single allocation factor that would be indicative of the substantial diversity present among VDT networks and investments of exchange carriers. There may exist some degree of homogeneity among technologies and equipment used to provide, for example, local exchange plant and switching for telephony. In this case, the adoption of a fixed allocation factor, although somewhat arbitrary, is not overly obtrusive.

In contrast, LECs have proposed a variety of different technologies and facilities to deliver VDT services -- analog vs. digital systems, fiber versus coaxial cable, and different methods of receiving and routing off-air and satellite video signals. The imposition of a single fixed allocation factor to all exchange carriers for VDT would almost always result in gross over-allocations, or under-allocations, of VDT plant and expenses. Such distorted results would benefit neither the carrier nor ratepayers of other interstate services.

B. The Commission should allow each exchange carrier (i) to propose and justify a reasonable allocation methodology in its annual price cap tariff filing; and (ii) to continue using that methodology.

What the Commission should do, is to allow each LEC to propose and justify a reasonable allocation methodology in its annual price cap tariff filing. Since VDT networks and technologies differ drastically, each exchange carrier should be allowed to submit an allocation plan that is tailored to the characteristics of its unique VDT network, service offerings, and functionalities.[1]

GTE believes such an approach would not be overly burdensome to administer for either the Commission or the exchange carriers. Under the current price cap plan, LECs have the option of selecting a higher productivity factor that will exempt the LEC from any sharing and low-end adjustment obligations. The Commission has recently observed that a majority of price cap LECs have elected the higher productivity factor that will, in effect, exempt them from separating VDT costs in their annual filings.[2] Thus, it is realistic to presume that there will be a manageable number of cost allocation proposals for the Commission to review in the annual tariff proceeding.[3]

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1 The Commission previously declined to mandate specific rate elements for VDT precisely because of "the wide variety of possible video dialtone architectures LECs may employ." Telephone Company - Cable Television Cross-Ownership Rules, Sections 63.54 - 63.58, Memorandum Opinion and Order on Reconsideration and Third Further Notice of Proposed Rulemaking, 10 FCC Rcd 244, 326 (1994), *appeal pending sub nom.* Mankato Citizens Tel. Co. v. FCC, No. 92-1404 (D.C. Cir. filed September 9, 1992).

2 In the Matter of Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, Fourth Further Notice of Proposed Rulemaking, FCC 95-406 (released September 27, 1995) at para. 8.

3 The establishment of a *de minimis* threshold itself will also guarantee that the Commission will not be forced to review a cost allocation plan from every price cap LEC.

In addition, a LEC should be permitted to employ its methodology for all subsequent annual filings, without having to obtain additional approvals, unless it modifies or substantially changes its plan.

In summary: Exchange carriers subject to the VDT allocation requirement should be permitted to employ reasonable and verifiable allocation methods in the annual price cap tariff submissions.

II. GTE RECOMMENDS THAT THE THRESHOLD STANDARD BE TIED A PERCENTAGE OF A COMPANY's INVESTMENT THAT IS WHOLLY DEDICATED TO VDT.

Pursuant to the *Second Report and Order* (at para. 35), in cases where an exchange carrier's VDT investment has passed a *de minimis* threshold, it must allocate costs to a separate VDT basket for price cap purposes.

A. It would be reasonable to tie the threshold to a meaningful level of VDT investment.

The *de minimis* threshold should be one that minimizes the additional accounting and reporting costs of the exchange carriers. A threshold tied to a meaningful level of VDT investment would be reasonable.

While the *de minimis* threshold should be designed to alleviate any potential negative impacts of VDT implementation on rates for other interstate services, it should also be fashioned so as not to place unwarranted administrative burdens on LECs. In many areas, the level of VDT investment is not expected to be significant until VDT networks are fully constructed.

The Commission suggests that the *de minimis* threshold could be based on the amount of dedicated VDT investment that -- if included in the interstate rate of return calculation -- would result in a change in the rate of return of as much as twenty-five basis points. GTE believes that this approach would be reasonable.

B. A better solution would be to tie the threshold to a certain percentage of a company's investment that is wholly dedicated to VDT.

A more workable solution, however, would be to simply tie the threshold to a certain percentage of a company's investment that is wholly dedicated to VDT. GTE proposes that the requirement to allocate VDT costs to a separate VDT category be triggered once a LEC's dedicated VDT investment constitutes ten per cent of a LEC's total investment. This could be easily verified from data that is readily available from the quarterly and annual VDT reports.[4] Further, this approach would eliminate the need to estimate the impact of VDT on a LEC's calculated rate of return in its annual price cap filing.

Respectfully submitted,

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[4] *See*, FCC Report 43-09B, Table 1.

Certificate of Service

I, Judy R. Quinlan, hereby certify that copies of the foregoing "GTE's Comments" have been mailed by first class United States mail, postage prepaid, on the 27th day of October, 1995 to all parties of record.

Judy R. Quinlan

Judy Q. Quinlan